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ABSTRACT

This report outlines several recommendations for new or substantially revised budget development procedures set out by the Illinois State Board of Higher Education. They include: (1) a statewide budget context report prepared early in the budget process that will provide colleges and universities with information they can use in their own budget requests; (2) more inclusive budget meetings; (3) a closer link between statewide strategic goals and budget recommendations; (4) statewide strategic goals that include performance measures and assessments to enable the higher education community and individual institutions to assess progress; and (5) annual assessment of the collective progress of higher education toward achievement of the statewide strategic goals. Illinois colleges, universities, and higher education agencies are encouraged to ensure that their processes and schedules are compatible with the state-level process. (CH)

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Item #8
February 2, 1999

STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

ED 426 664

REFOCUSING HIGHER EDUCATION BUDGET DEVELOPMENT
EXECUTIVE SUMMARY

In July 1998, the Board of Higher Education discussed the draft report *Refocusing Higher Education Budget Development* that proposed revisions to the higher education budget development process. The Board supported the revisions and concluded that the higher education community should be asked to comment on the revised budget development process after the completion of fall 1998 budget development. The Board agreed to consider comments before endorsing the revised process.

During budget development and in a memorandum to college and university presidents and chancellors and higher education agency directors, Board staff solicited comments on the revised budget process and suggestions for improvement. Nearly all of the comments and suggestions endorsed the revised process. The most significant comments suggested that the report should be less specific regarding recommended changes to campus budget development and allow institutions to retain flexibility and institutional control over internal campus processes. As a result, the section in this report on campus budget development has been revised. A second suggestion recommended that the term "benchmarks" be replaced with "performance measures". This change also was made in this report.

This item recommends that the Board endorse the changes in budget development that are designed to provide more information to institutions and to make the process more inclusive and more open. With these changes, budget development will be goal-based and responsive, promote accountability, provide incentives for achieving strategic goals, and acknowledge institutional diversity. The following recommendations are new or substantially reconstituted elements of budget development:

1. There will be a statewide budget context report prepared early in the budget process to provide information that universities and colleges can use as they prepare their budget requests.

2. Budget meetings will be more inclusive.

3. There will be a close link between statewide strategic goals identified in the Illinois Commitment and budget recommendations.

4. Statewide strategic goals will be operationalized and will include performance measures and assessments, so that the entire higher education community and each institution can assess progress toward achieving goals.

5. The collective progress of higher education toward achievement of the goals of the Illinois Commitment will be assessed annually using specific measures of results and accountability.

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STATE OF ILLINOIS
BOARD OF HIGHER EDUCATION

REFOCUSING HIGHER EDUCATION BUDGET DEVELOPMENT

Among the responsibilities of the Board of Higher Education, budget development represents the most direct mechanism by which the Board's policies and priorities influence programs and services on college and university campuses. Because of this link, budget development can be viewed as a primary means by which the state assists colleges and universities in responding to the changing goals and aspirations of students and the state's workforce needs.

In May 1998, the Board discussed *Improving the Productivity of State-Level Processes*. The report established the importance of periodically taking a comprehensive review of budget development and recommended a context for improving Illinois' higher education budget development processes. In July 1998, the Board discussed the draft *Refocusing Higher Education Budget Development*. Of primary importance in both reports is the credibility of budget development as a state-level process. Ultimately, the Board must make budget decisions and it is likely that not everyone will completely agree with them. Ideally, however, most people should agree that the budget development process is fair, that everyone involved understands the process and has an opportunity for input into budget decisions, and that the Board considers the counsel of the entire higher education community before finalizing its budget recommendations.

A periodic review of budget development also is important because of the scope and comprehensiveness of the process. Budget development is one of the most intensive activities of the Board and represents a significant staff commitment at the colleges and universities. Because of this level of activity, improving the efficiency of budgetary processes should be possible by sharpening focus and reducing administrative and information requirements. Budget development involves all of higher education -- public universities, community colleges, independent institutions, student financial aid, retirement, and grant programs -- and improvements in the responsiveness and effectiveness of budget development will ultimately improve programs and services for all Illinois students.

As a state-level process, budget development is primarily a tool for the Board to use to implement its priorities and policy initiatives. Budget development also is the primary tool used by the Governor and General Assembly to establish priorities and directions for all state programs and services, including higher education, and communicate those initiatives to the higher education community. As a campus-level process, budget development is primarily a means to allocate resources among instruction, research, service, and support programs and activities. The review of budget development should examine how well state-level and campus-level processes are integrated. In a sense, budget development should be looked at as one seamless process that directly integrates articulated state priorities into campus programs and services.

Budget Development to Achieve Statewide Strategic Goals

The ultimate goal of budget development is to allocate resources in a manner that maximally achieves statewide strategic goals. Higher education budget development also should

provide the Governor and General Assembly the opportunity to invest the resources needed to achieve statewide public policy goals. Within this context, budget development should incorporate the following principles.

Goal-Based and Accountable. Budget development should be driven by the strategic goals and priorities adopted by the Board of Higher Education after extensive consultation with the citizens of the state, the committees which formally advise the Board, college and university leaders, students, political leaders, and those who employ or otherwise engage students after they graduate. Statewide goals should be clearly articulated to institutions through policy initiatives and statewide and institutional performance standards. In other words, institutions should be given clear guidelines and performance measures so they can know when they are, and when they are not, advancing statewide goals. Resource allocation decisions should be made to support programs and activities that directly address statewide goals. Accountability for resources should be directly linked to institutional contributions in achieving statewide goals.

Responsive. Budget development should recognize changing economic and social conditions, and resource allocation decisions should support institutions in their efforts to respond to new and emerging priorities. Administrative requirements and processes should promote accountability and facilitate institutions in their ability to be responsive.

Incentive-Based. Incentives should be the principle means by which institutions are encouraged to help achieve statewide goals. Institutions also should receive incentives that encourage entrepreneurial activities and innovation and promote institutional effectiveness and efficiency.

Recognize the Diversity of Institutions. Budget development should recognize different institutional missions. Resource allocation decisions should provide comparable treatment among comparable institutions yet recognize different resource requirements among institutions providing different levels of instruction, research, and service. Each institution also should be encouraged to address statewide goals in a manner that is consistent with its mission.

Stable, Yet Flexible. Budget development should be simple to understand and include stable resource allocation decision rules to promote long-term planning. At the same time, budget development should be flexible and aligned with other state-level policies and processes (e.g., the Illinois Commitment, program approval).

Division of Responsibility. Budget development should recognize the distinct, yet complementary, responsibilities of state-level budgeting and campus-level budgeting. The goal of state-level budgeting is to allocate resources to support broad statewide strategic goals. Campus-level budgeting provides for the specific allocation of resources to support campus level programs and services.

The following sections outline a process for budget development. The term institution is used throughout the remainder of this report to refer to the entities included in Board of Higher Education budget development. These include public universities, community colleges and the Illinois Community College Board, the Illinois Student Assistance Commission, the Illinois Mathematics and Science Academy, the State Universities Retirement System, grant programs, and higher education agencies.

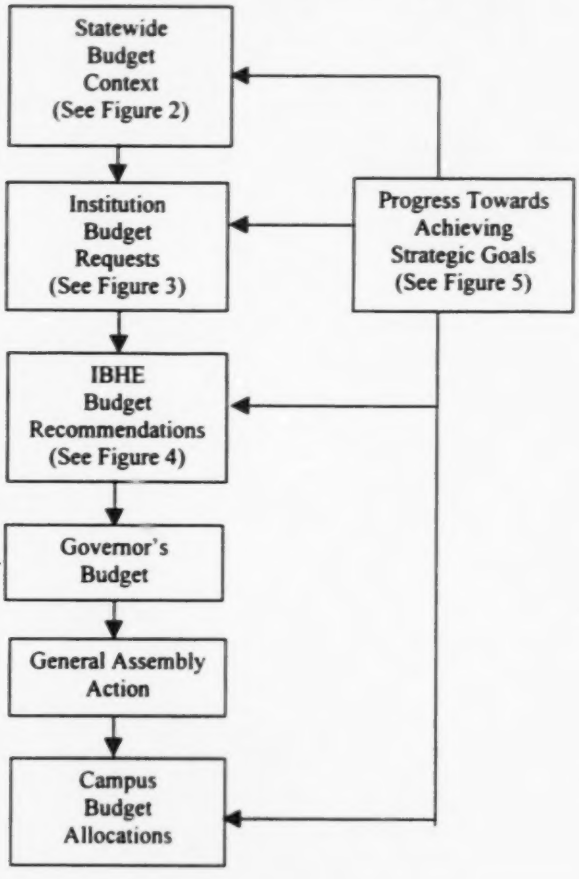
Overview

The refocused budget development process builds upon many of the collaborative budgeting processes that have been used successfully for many years. It includes the development of a statewide budget context early in the budget process, wider participation in budget overview meetings, closer linkage of statewide strategic goals to budget recommendations, the use of performance measures to assess progress in achieving strategic goals, and the linking of budget recommendations to the results of that assessment. Each of these budget components is described in more detail later in this report.

The major sequential steps in annual budget development under this proposal are depicted in Figure 1 and consist of:

1. development of a statewide budget context;
2. submission of institutional budget requests;
3. development of Board of Higher Education budget recommendations;
4. Governor's budget;
5. General Assembly action;
6. campus budget allocations; and
7. evaluating progress in achieving strategic goals.

Figure 1
Overview of Budget Development


Statewide Budget Context (See Figure 2)
Institution Budget Requests (See Figure 3)
Progress Towards Achieving Strategic Goals (See Figure 5)
IBHE Budget Recommendations (See Figure 4)
Governor's Budget
General Assembly Action
Campus Budget Allocations

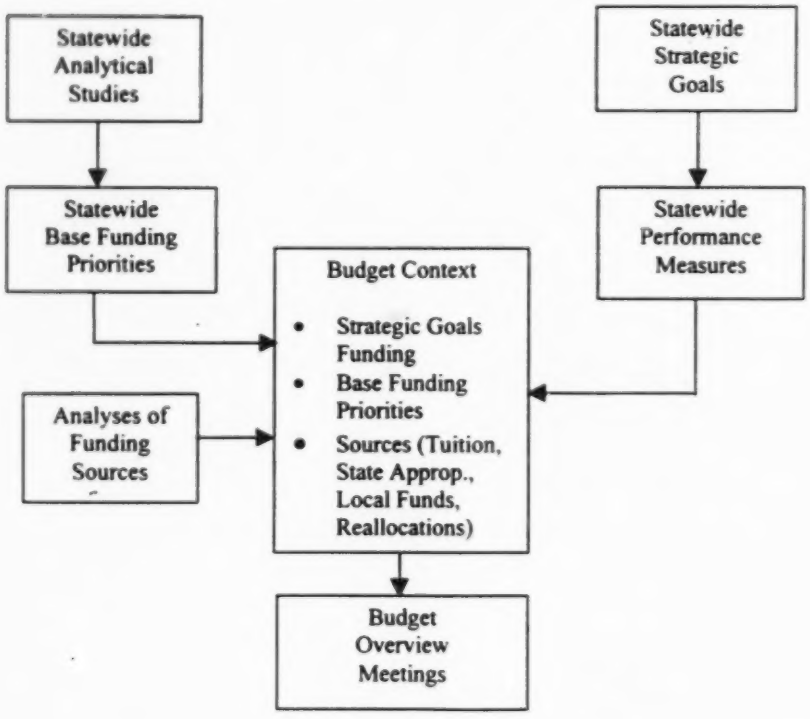
Illinois higher education budget development generally takes place in three forums - campus budget development, coordinated by the board of trustees of the individual colleges and universities; statewide higher education budget development, coordinated by the Board of Higher Education; and Illinois state government budget development, proposed by the Governor and enacted by the General Assembly. Each of these processes makes an important contribution to implementing programs and services on campuses that address the state's highest needs.

Drawing from recent policy and analytical studies, the Budget Context report will inform institutions of statewide priorities prior to submitting their requests. Institutions will be able to base their requests on the statewide budget priorities consistent with their institutional missions. The Board's budget recommendations will take into consideration both institutional requests and statewide strategic goals. Annually, institutional progress in achieving strategic goals will be evaluated to determine if previous resource commitments were having the desired results. The following sections elaborate on each of these steps.

Development of a Statewide Budget Context

As shown in Figure 1, the first step in the budget process will be the development of an annual Statewide Budget Context by the Board of Higher Education. The intent of the Statewide Budget Context is not to establish new Board priorities or analytical studies but to summarize and discuss the Board's current goals and initiatives. The context would set broad parameters for the development of the budget for the next fiscal year and communicate state level budget priorities to institutions. Figure 2 shows the development of the Statewide Budget Context document.

Figure 2
Development of a Statewide Budget Context



Statewide Analytical Studies, such as annual salary studies and cost studies, would form the basis for Statewide Base Funding Priorities for items such as salary and cost increases. Statewide Strategic Goals would be based on current Board of Higher Education policy initiatives such as the Illinois Commitment.

A new component included in the budget development process is the use of statewide strategic goals and performance measures. Specific performance measures related to each strategic goal adopted by the Board will be developed and included in the Board's strategic agenda. Progress in pursuing policy directions will be linked to budget development. Performance measures will be used to evaluate statewide progress towards the Board's policy initiatives and the contribution of each institution towards these statewide goals. Requests receiving the highest considerations in budget development will be those that address statewide goals and include clearly articulated performance measures.

The third component of the Statewide Budget Context is Analyses of Funding Sources. Board of Higher Education and Illinois Student Assistance Commission staffs periodically prepare analytical studies that examine the affordability of Illinois higher education. These analyses will be discussed in the Statewide Budget Context to provide a context for institutional tuition and fee increases and the associated revenue available to support budget priorities. In addition, the context will provide a discussion of Illinois' fiscal climate, state government spending pressures, and resources that may be available to higher education.

The Statewide Budget Context document will form the agenda for Budget Overview Meetings. These meetings would occur early in the budget process and build consensus within the higher education community on overall budget priorities and parameters. The goal of the Budget Overview Meetings would be to review early in the budget process statewide and institutional priorities through an exchange of analyses and perspectives. The meetings also would provide the opportunity for campus constituents to have early input in budget development.

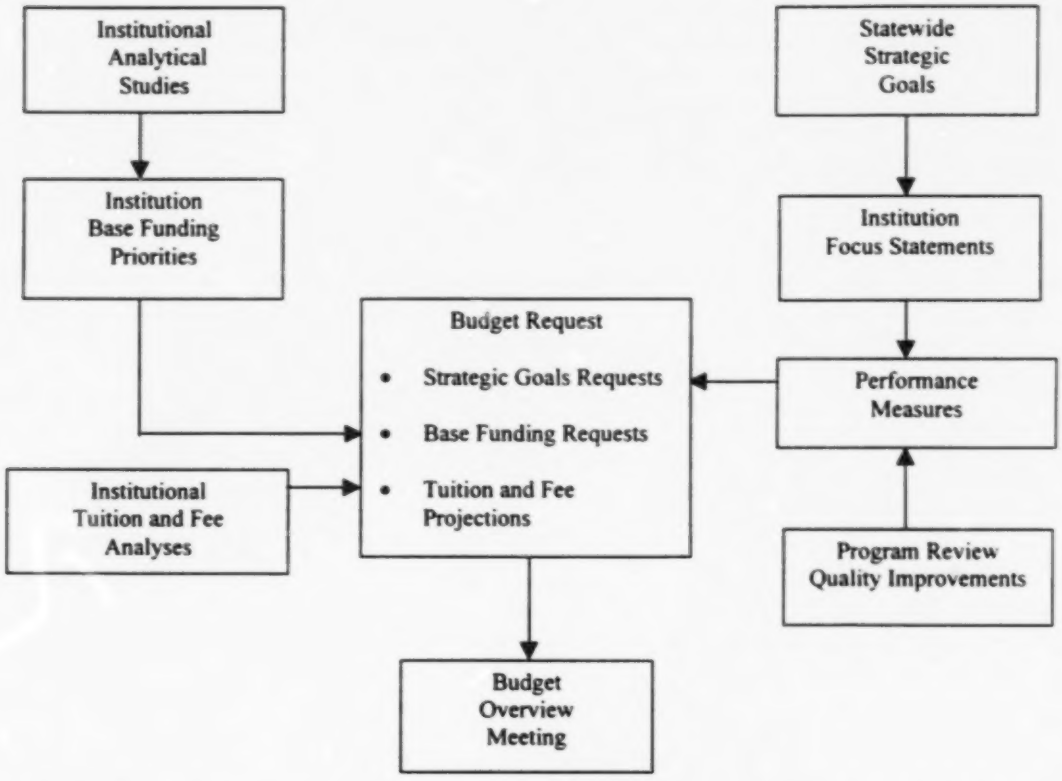
Institutional Budget Requests

The Statewide Budget Context provides guidance to institutions to ensure that budget requests are consistent with and support statewide policy initiatives and budget priorities. Institutional Budget Requests include three basic components – strategic goals requests, base funding requests, and tuition and fee projections - based on four input factors - statewide strategic goals, program review, institutional analytical studies, and institutional tuition and fee analyses. Institutional budget requests typically include resource requests for inflationary cost and salary increases, new and expanded academic program requests, and support program requests. Figure 3 illustrates the relationship of these components and factors in the development of institutional budget requests. Each of these is discussed below.

Strategic Goals Requests. The Statewide Budget Context discussed earlier establishes priorities based on the Board's statewide strategic goals and policy initiatives. Institutions will be encouraged to submit budget requests that are directly aligned with statewide strategic goals. These requests should be consistent with institutional mission and focus and build upon the distinctive strengths of the institution. In addition to new degree programs, strategic goals requests may include broad-based initiatives. Institutions also could submit requests in any fiscal year to achieve needed quality or productivity improvements identified in the program review process. These requests should not include short-term or narrowly focused projects or activities.

For a budget request to be considered in the Board's budget development process it must address a statewide strategic goal and identify, as a minimum, performance measures that can be used to analyze the extent to which progress will be achieved. Institutions may include institution-specific performance measures to assess contributions. Statewide and institutional performance measures will provide the basis for annual Results Reports, as outlined below. These measures will be multi-year; that is, in most cases incremental progress in achieving goals will be made over a number of years.

Figure 3
Institutional Budget Requests



Base Funding Requests. One of the strengths of the Statewide Budget Context is its reliance on statewide analytical studies, most of which are developed in consultation with the institutions. Institutional Budget Requests provide institutions with the opportunity to conduct Institutional Analytical Studies to support Institutional Base Funding Priorities and Base Funding Requests. These requests could seek resources for basic inflationary increases, such as salary and cost increases, or they could seek to address base funding inequities. Institutional Analytical Studies and Base Funding Requests also must include an institutional plan and commitment to address any equity problem, including the planned use of internal reallocations and productivity improvements, and include productivity measures to assess results. Institutional Analytical Studies also should address enrollment management issues. Analytical studies that recognize differences in institutional mission, level of instruction, size (fixed costs), regional cost of living, and program mix are compelling and would be considered. Analytical studies based on differences in total funding per student that ignore differences in such factors are not compelling

and would not be considered in supporting Base Funding Requests. Institutional Analytical Studies that support base equity funding requests will be provided to all higher education institutions so that the merits of the request can be evaluated and discussed among the higher education community.

A budget component for Base Funding Requests does not constitute a significant departure from current budget procedures, although more explicit differential recommendations could be made to base funding categories for sectors and institutions.

Tuition and Fee Projections. The first two components of institutional budget requests, strategic goals requests and base funding requests, deal with resource requirements. The third component, tuition and fee projections, deals with sources of support and an appropriate balance between the need for additional resources and improving the ability of students to pay for college. Tuition and fee projections should be submitted based on institutional analyses of student charges, statewide and institutional priorities and performance measures, and multi-year planning for institutional costs and the price to be charged to students.

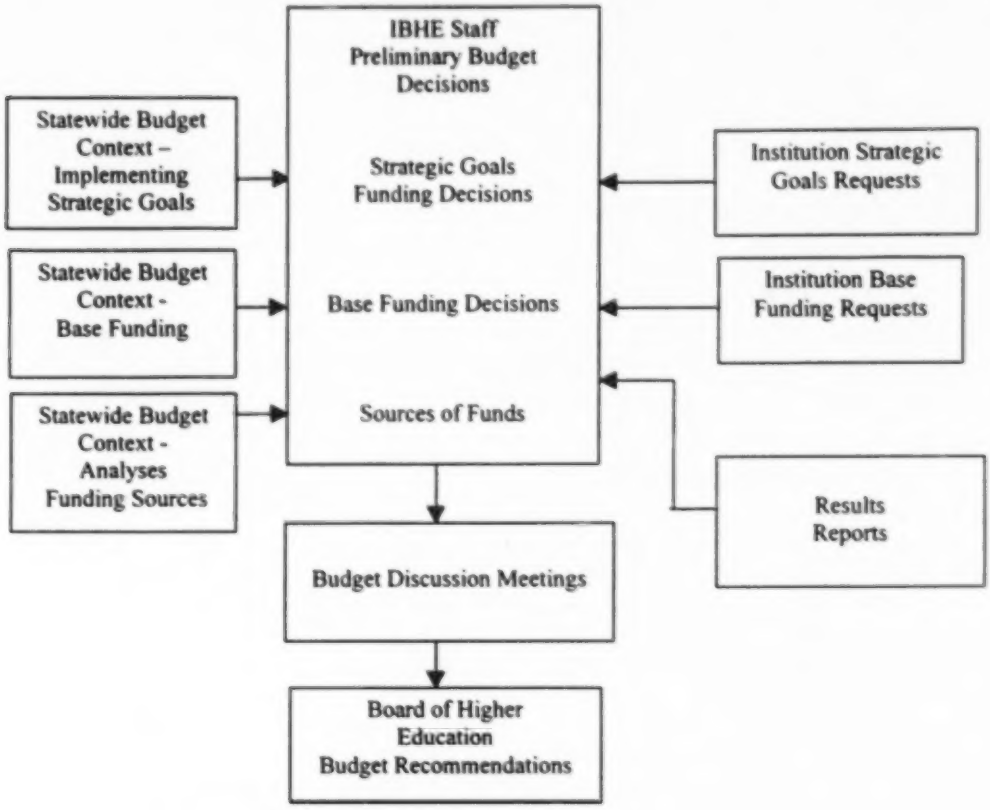
Development of Board of Higher Education Budget Recommendations

The development of higher education budget recommendations provides an illustration of the shared responsibilities of the Board of Higher Education and institutions. Statutorily, the Board is responsible for statewide master planning and the coordination of Illinois' system of higher education. At the same time, the Board does not have the authority or responsibility to set tuition and fees, operate programs, enroll students, or allocate campus resources. These responsibilities are left to the discretion of the institutions. This system of shared responsibility has served Illinois well by providing an independent level of accountability for taxpayer and student resources while facilitating institutional responsiveness. The refocusing of budget development further increases accountability, responsiveness, and collaboration while maintaining or enhancing institutional autonomy, thereby improving the overall system of shared responsibility.

As illustrated in Figure 4, higher education budget development can be characterized as a nearly continuous process of interaction between the Board and institutions. Board recommendations evolve through collaboration on a series of budget decisions with the Board being the final arbitrator of budget recommendations for higher education. Consideration of institutional budget requests will be done within the three contexts: the available resources determined through analyses of funding sources; statewide strategic goals and performance measures; and institutional requests and performance measures. Budget development involves broad allocation decisions – between sectors and institutions, among functions (e.g., grant programs, student financial aid), and in competition with other state priorities.

Results Reports, described below, will address the performance measures and be used as one factor to determine support for budget requests in budget decisions. Following the development of preliminary budget decisions, another series of meetings will be held with institutional representatives. These meetings are more focused on the specific recommendations than the budget overview meetings and would include a smaller representation of campus constituents. Following these meetings, Board staff will develop a final set of budget recommendations to be presented to the full Board for consideration. Upon completion, the Board's recommendations will be presented to the Governor and General Assembly, as required by statute.

Figure 4
Development of Board of Higher Education Budget Recommendations



Campus Budget Allocations

Both current and revised budget development processes recognize that most resource allocation decisions that determine the level of support for specific programs and activities are made at the campus level. It is important that revised budget development processes recognize that actual resource allocation decisions are made at the campus level and institutions retain the flexibility to manage campus resources to attain campus and statewide goals.

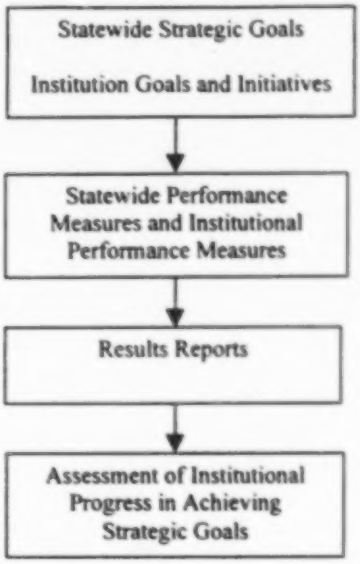
Evaluating Progress in Achieving Strategic Goals

Figure 1, shown earlier in this report, illustrates the relationship among the major budget development steps. Directly linked to each step in budget development is the evaluation of progress in achieving strategic goals. Establishing statewide and institutional goals and continuously moving towards them are the expected outcomes of the state- and campus-level budget development.

Figure 5 illustrates the process for evaluating progress in achieving statewide and institutional strategic goals with the end result being an assessment of institutional progress in

achieving those goals. This assessment will be linked to and become an integral part of state-level program approval and budget development.

Figure 5
Evaluating Progress in Achieving Strategic Goals


Statewide Strategic Goals
Institution Goals and Initiatives
Statewide Performance Measures and Institutional Performance Measures
Results Reports
Assessment of Institutional Progress in Achieving Strategic Goals

The statewide goals included in the Illinois Commitment will span multiple budget cycles and will be periodically reevaluated and strengthened by the Board, in consultation with the colleges and universities. The performance measures associated with these goals also will span multiple years and will affect multiple budget cycles. Through periodic policy reports, strategic goals and performance measures will be clearly articulated to the colleges and universities. Performance measures will be developed by institutions, in addition to the statewide measures, when campus specific performance measures provide a perspective and insight into campus contributions to statewide goals not evident with the statewide indicators.

Campus Results Reports will include a campus assessment of achievements in attaining institutional goals and the contributions of the campus towards the achievement of statewide goals. The assessment will be based on statewide and institutionally developed performance measures articulated by the campus to the Board of Higher Education. Statewide Results Reports will assess the collective progress of higher education towards achievement of the goals of the Illinois Commitment.

Implementation

The refocusing of higher education budget development will occur over several years. When fully implemented, the processes will have the following schedule. The dates listed are for fiscal year 2001 budget development.

1999

April	Statewide Budget Context discussed by the Board of Higher Education.
July	Institution programmatic budget requests submitted to the Board of Higher Education.
September	Total institution budget requests submitted to the Board of Higher Education.
	BHE/Institutional Budget Overview Meetings.
November	Budget Discussions with institutions.
December	Board of Higher Education action on budget recommendations.

2000

February	Governor's Budget.
June	Appropriations enacted.
August	Institution budget allocation.

2001

June	End of fiscal year.
August	Submission of Campus Results Reports.
October	Statewide Results Report.

Summary

Illinois higher education budget development is built on a long tradition of using a collaborative budget process to identify and support Illinois' highest priorities, while providing accountability to those investing tuition and tax dollars. The revised higher education budget development processes outlined in this report build upon these successful budgeting practices.

The revised process calls for the Board to develop, prior to the submission of institutional requests, a Statewide Budget Context document. This document will summarize current Board of Higher Education strategic goals and initiatives and guide institutions in the submission of their budget requests. More direct links between statewide strategic goals, budget requests, and budget recommendations will be established. Performance measures will be developed to assess institutional contributions in attaining statewide strategic goals and link those results to budget development and other state-level processes, such as program review.

The staff recommends the adoption of the following resolution:

The Board of Higher Education endorses the budget development process outlined above and encourages Illinois colleges, universities, and higher education agencies to assure that their processes and schedules are compatible with the state-level processes.